Knowledge process outsourcing in financial services: The vendor perspective

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Summary This research reports the findings from a study on nine knowledge process outsourcing (KPO) vendors working in the financial services industry. It delineates financial business processes along a low to high-end continuum. Findings suggest that KPO vendors are gradually moving along the value pathway offering more complex intellectual value activity based products and services to clients. However, they face many challenges including gaining the confidence of potential clients about outsourcing knowledge-intensive work, and finding effective solutions to mitigate outsourcing risk. Our paper concludes by developing a taxonomy of KPO scenarios to provide a backdrop for further academic research and to illustrate current practice.

Introduction

The knowledge process outsourcing (KPO) industry is built around a demand for business intelligence and expertise and is expected to grow from a $1.2 billion industry (at a compounded annual growth rate of 46%) expected to rise to $17 billion by 2010. Around $12 billion of the market is estimated to be outsourced to India (Evalueserve Report, 2004). Similarly, the National Association of Software and Service Companies of India, NASSCOM, predict the KPO sector in India to reach $15.5 billion by 2010 (Sathe, 2006). Other countries such as China, Russia, Mexico, and Israel are also expected to become large players in this growing market (Larkey, 2006).

While predictions about the market for KPO seem optimistic, an identifiable gap exists between the prospective KPO market size and senior executive knowledge about the scale and scope of KPO vendor products and services. This paper reports the findings from an exploratory-descriptive case study analysis of nine KPO vendors working for clients in the financial services industry. It aims to compile a contemporary picture of the spectrum of KPO work. Based upon our empirical data, a conceptual model is developed which identifies 19 financial services business processes using a value pathway analysis, with KPO vendors targeting their offerings at the higher end. Our data suggests that whereas some processes at the middle of the continuum might be regarded as KPO by some vendors, e.g. insurance claims processing, others see this as simply a rule-based activity with little knowledge-based content and low profits. So until there is a generally accepted definition for
knowledge processes that enables a differentiation between
transaction and knowledge processes, we suggest that
publications regarding KPO market and financial size should
be treated with some caution. As a precursor for further
work, our study suggests that financial business processes
need to be classified according to their knowledge-intensity
to assist prospective clients of KPO in their evaluation of
vendors.

The paper is organised as follows. First, we give an over-
view of the KPO literature, which is a subset of the wider
outsourcing body of work. We offer some useful definitions
of KPO derived from prior work. Second, we discuss our re-
search method. Our case-based analysis is intended to pro-
vide an exploratory-descriptive study that may generate
further academic enquiry. Third, we discuss our research
findings and introduce our conceptual model of the financial
services business process continuum. Finally, we offer a
brief taxonomy of KPO vendors which shows how they are
seeking to enhance their value added work through develop-
ing their KPO offerings.

Knowledge process outsourcing

The question of whether KPO is myth or reality should be ad-
dressed during any research enquiry, particularly since prior
work has shown that management fads and panaceas tend
to be over-hyped with few examples of how they work in
practice (Currie, 2004). An important question about KPO
is that: If knowledge is so important to competitive advan-
tage, why are firms outsourcing it? Is it a myth or are we
referring to other kinds or variants of knowledge? To address
this question, we suggest that research must seek to under-
stand how knowledge fits into a knowledge process or con-
tinuum. Knowledge must be contextualised, as it is likely
that definitions of KPO differ both within and across indus-
trial sectors. Our interest in this paper is the financial
services sector in which firms undertake numerous knowl-
edge-based business processes and activities. We therefore
identify what a knowledge process is, and the difference be-
tween a transaction process in the context of the financial
services sector, which is now a significant player in the
KPO market.

Characteristics of knowledge based outsourcing

In the pilot study on which this work is based, (Michell,
2005) we defined a knowledge process as: “a sequence of
intellectual activities involving analysis, pattern recogni-
tion, design, and judgement, which converts unstructured
and poorly defined inputs into a well defined, often original
output”. Given that a process is defined as “a specific
ordering of work activities across time and place, with a
beginning, an end, and clearly identified inputs and out-
puts” (Davenport, 1993), this definition of a knowledge pro-
cess is useful for our purposes in this paper.

However, a knowledge process may be a misnomer as all
processes contain different levels of knowledge. What is
clearly different is the level of capability and skill required
to exploit the knowledge inherent in the process. We
propose the following characteristics of a knowledge process:

- Analytical: Involving the analysis process
- Complex and professional decision making: Involving
  complex and professional/intellectual decision making
- Extensive and complex domain knowledge
- Professional/highly intelligent staff: Processes are
  manned by professional and highly qualified staff edu-
cated to undergraduate degree level and above
- Unstructured process/resources not easily automated
  (due to complexity and unstructured nature of the data)
- Dynamic and ad-hoc: The work may change rapidly and
  the process has many decision points with high impact
decisions
- Creative: Many knowledge processes have a design or
  creative element which may require inspiration and com-
  plex modelling coupled with the decision making

These in turn require levels of more basic activities such as:

- Data gathering
- Pattern recognition
- Judgement and selection
- Pattern building (eg design)

Types of knowledge process

Potentially many knowledge processes can be identified
by the level and cost of the decision making involved and
by implication the use of ‘professionals’ who are regulated,
valued and often highly paid for their skills and judgement.
For example, doctors, lawyers, engineers and scientists.

Medicine:
- Interpretation of X rays (pattern recognition coupled
  with high risk/cost of decision)

Legal:
- Case work (domain knowledge and pattern recog-
nition)
- Patent: Client patent work (domain knowledge within
  specific intellectual rules)

Design:
- Product design
- Document design
- Electronic design (e.g, web design)

Includes
- Design Brief, initial design (use design process)

HR
- Headhunting — search and selection

Marketing
- Research/business intelligence

Transactional Processes are processes that are well struc-
tured with many but known outcomes that can be processed
automatically/systemically or via human operators using
specific rules. For example:

- Production processes
- Transactional business processes
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